1930

Branch banking in California

Burrus Everett Claypool
University of the Pacific

BRANCH BANKING IN CALIFORNIA

By

yrus verett

B. E. CLAYPOOL

T H E S I S

SUBMITTED IN PARTIAL SATISFACTION OF
THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF ARTS

IN

ECONOMICS

IN THE
GRADUATE DIVISION
OF THE
COLLEGE OF THE PACIFIC

APPROVED

Robert Cromwell Root, Major Professor

DEPOSITED IN THE COLLEGE LIBRARY JUNE, 1930

Harriet E. Bass

Librarian

CONTENTS

FOREWORD

In this paper it is hoped to present an accurate account of branch banking conditions as they exist in California, followed by an expression of the writer's views upon the subject which have come from an impartial consideration of the movement from several standpoints.

Part one explains briefly the nature of branch banking, tells something of its importance and success in other countries and of its development in the United States. A discussion of the branch systems that are active in California and a detailed description of the origin, growth and importance of one large organization in the state gives an idea of the prominence this movement is assuming.

In part two the arguments for and against branch banking are presented and discussed from a theoretical basis, and also compared with the results of this type of banking as reported by those who have had dealings with both unit and branch organizations.

One difficulty confronting a study of this nature is the number of changes that are constantly taking place. Large banking systems are being consolidated into single organizations. Holding companies are formed to bring important organizations, both unit and branch, under central control. In banking, as in other types of business, the movement is toward fewer and larger systems.

Since this study was begun in 1928, a number of such changes have taken place. In all cases an attempt has been made to revise the material to conform with conditions as they existed January 1, 1930. Many times it has not been possible to determine completely the inter-corporate relations between large organizations.

Much of the material for this study has been taken from magazine articles written by bankers and students of banking problems. The daily newspapers have been another source. To date, very few books have been published which treat of this subject except in a very general way.

It is hoped that some ideas have been developed which, while likely not new to those who have made studies of this subject, will be taken as an attempt on the part of the writer to present the strong and weak points of branch banking as he sees it.

PART ONE

NATURE AND EXTENT OF BRANCH BANKING

CHAPTER I

ORGANIZATION OF BRANCH BANKING OUTSIDE OF CALIFORNIA

England and Scotland

The term "Branch Banking" implies different things when used in different places. While this paper is primarily concerned with California banking practices, a brief description of branch systems in other lands will serve as a basis of comparison.

In England and Scotland branch banking is a long established institution and as such is accepted by the people without question. The Bank of England, established in 1694, is a financial agent of the government and operates eleven branches in various parts of the country. This bank with its branches is much the same as our Federal Reserve System with the twelve districts each, containing a Federal Reserve bank. The bulk of the English commercial banking is carried on through Joint Stock banks which are allowed to establish branches outside their home cities. In 1890 there were 104 such organizations operating 2000 branches. This number has declined until in 1927 there were only 31, with over 10,000 branch offices. Reports show that this system is meeting the demands of English business.[1]

The banks of Scotland are organized very much like those of England. The Bank of Scotland, founded in 1695, functions the same as the Bank of England. At present there are nine Joint Stock banks which operate about 1500 branches.[1]

Banking in Canada

The Canadian banking system is fundamentally of branch organizations. There are no unit banks. The Canadian Bank Act passed in 1870 contemplated such a system, and put few restrictions upon the number or locations of branches that might be established by any institution. "A bank of branches, not a bank with branches", characterizes any one of the Canadian organizations. In 1929 there were ten banking institutions in the Dominion which operated over 5000 branch offices.[2] All head offices are located in Toronto or Montreal. The effectiveness and success of Canada's branch system is due to the uniform regulation provided by the Dominion government and to the sparse population. The various provinces do not have the privilege of chartering banks as does each state in this country. Banking legislation has preceeded bank development instead of waiting to legalize customs that have grown into a loosely regulated development.[3]

1. James Dysart McGee, <u>Money and Banking</u>, 482-5.
2. John H. Millar, "How Does Branch Banking Serve Business?", <u>Magazine of Business</u>, June 1929, 640.
3. James Dysart McGee, <u>Money and Banking</u>, 482-5.

Further light is thrown upon the Canadian system from the report of John H. Millar who was sent to Canada by the Magazine of Business to make a study of the situation in that country. According to Mr. Millar, Canadian bankers and business men are better satisfied with their system than the same groups are in the United States with our system. At least in Canada there is no desire or expectation of any substantial changes in the organization. There are no "banking problems" which compare with ours.[1]

As new parts of the Dominion are being developed, before the railroad is built to a future townsite, even before the townsite is definitely located, a branch bank is opened. Sometimes a wooden shack with only two men and a safe constitute the branch, but behind it are resources running into hundreds of millions, just as the head office in Montreal or Toronto. In this way industries may be financed by the largest Canadian banks, thus eliminating the slow development which would likely take place if the same industries were dependent upon the small amount of local capital that could be brought together by a unit bank. Deposits in these branches many times do not cover one per cent of a single loan made by the branch, an impossible situation under an independent system.

1. John H. Millar, "How Does Branch Banking Serve Business?", Magazine of Business, June 1929, 640.

Mr. C. E. Neill, General Manager of the Royal Bank of Canada, which with 888 branches and resources of $909,000,000 is the largest system in the Dominion, makes the following statement:

> Of course there are two sides to this question of branch banking. We may take deposits from a fishing village in Nova Scotia and lend them to a manufacturing industry in another community. It has been claimed that it would be better for that village if the money were put into a fish drying plant or some other local enterprise, as might possibly be done if the bank were a home owned one. But local enthusiasm sometimes leads to the initiation of unfortunate projects which might have been avoided had they been subjected to the unbiased judgment of an outsider. In actual practice in Canada, bank credit goes to the people who can make the best use of it, no matter whether they live in city, village, or country.[1]

Canadian banks not only have branches throughout the Dominion but foreign branches as well. 107 of the 888 offices of the Royal Bank are located abroad, mainly in South America and the West Indies. Foreign branches are conducted essentially the same as the others, and it is this extensive system under central control that partially accounts for the high rank of Canada in foreign trade.

It had been said that in the United States there are more banks than bankers. This must have in it an element of truth when we consider that since the World War, 16% of all banks in this country have failed. In some agricultural states the number of failures is nearly 50%. In the first

1. John H. Millar, "How Does Branch Banking Serve Business?", Magazine of Business, June 1929, 640.

op. cit.

eight months of 1929 failures among state and national banks amounted to 455.[1] The Canadian banks have a definite course of training for those who enter the banking profession. Boys are taken into the systems between the ages of 16 and 18 years and their education is provided by the institution with which they are affiliated. To widen their experience they are transferred from one part of the country to another. By this method each bank is assured of competently trained men to fill vacancies as they arise.

The oldest bank in Canada is the Bank of Montreal which was established in 1817. It is said that this institution was modeled on plans drawn up by Alexander Hamilton for a national bank in this country.[2] In 1818 this bank established its first branch at Quebec.

There have never been more than 36 systems at one time. At present there are only ten and the tendency is for this number to be decreased. Three of these, the Royal Bank of Canada, the Bank of Montreal, and the Canadian Bank of Commerce operate 2366 or about one-half the total number of branch offices.

As the number of systems has decreased the competition has become keener among the remaining. In this respect Canadian banking closely resembles the automobile industry in

1. Carleton A. Shively, "Branch Banking", Outlook and Independent, October 9, 1929, 226.
2. John H. Millar, "How Does Branch Banking Serve Business?", Magazine of Business, June 1929, 640.

the United States. Due to the ease of establishment and low cost of operation, there are competing branches in each community. In the United States there is one banking office per 5000 population. In Canada the ratio is one to 2300. This close competition makes it necessary for branch managers to do everything possible to bring business to their institutions. This tends toward greater consideration for the needs of the customers.

The Bank Act which has been mentioned, automatically comes up for revision every ten years. At these times any persons who have suggestions for the improvement of the system are permitted and requested to present same. The next revision is scheduled for 1933. It is likely that changes will be made then, but Canadian bankers and business men are not looking forward to any fundamental reorganization, only those changes which will keep the present system in pace with the increasing and more complicated demands which are being made upon banking institutions the world over.[1]

Development in the United States

"Branch Banking" in the United States has not always implied the same as at present. Both the First and the Second Bank of the United States, which were chartered in 1791 and 1816 respectively, were allowed to establish branches

1. John H. Millar, "How Does Branch Banking Serve Business?", Magazine of Business, June 1929, 640-1.

wherever the directors saw fit. These banks similar to the Bank of England were operated as a link between the government and the business interest of the country. Branches were established in the leading cities. It is interesting to note that the Bank of America, which has so recently come to the front in financial activities, was chartered by the state of New York in 1811 as successor to the New York City branch of the First Bank of the United States, whose charter had expired the same year.[1]

Banking in the United States up to the passage of the National Bank Act in 1863 was loosely supervised. There are instances of banks establishing branch offices in the same or nearby cities, but ordinarily they were of a temporary nature and closed when the emergency demanding their existence had passed. In 1870 there is record of only one bank which maintained an active branch. In 1900 there were sixty active branches, five national and fifty-five which belonged to state banks. The following table shows the growth since that date:[2]

1905	166	branches	7	National	159	State.
1910	329	"	12	"	317	"
1915	565	"	31	"	534	"
1920	1,052	"	56	"	996	"
1922	1,602	"	136	"	1,466	"
1925	2,233	"	248	"	1,985	"

1. San Francisco Chronicle, February 20, 1928, Financial Page.
2. Survey by Federal Reserve Board, American Bankers Association Journal, January 1925.

The 2,233 branches mentioned above were operated by 681 institutions. Only about 400 of these branches were located outside the home city.

The states which lead in the number of branches were as follows:[1]

State	Banks	Home City Branches	Outside Branches
California	99	249	289
New York	74	359	---
Ohio	51	182	21
Michigan	63	327 Offices	5 Offices

This table classifies the 681 institutions according to total resources:[2]

	Banks	Operated Branches in Home City Only	Operated Outside Branches
Under $1,000,000	127	9	118
$1,000,000-$10,000,000	319	174	145
$10,000,000 and over	232	187	45
No report	3		

The following facts were included in the survey made by the board:

One-third the total resources of the country were in branch organizations.

7.3% of all banking offices were branches.
44.4% of all banking offices in California were branches.

1. Survey by Federal Reserve Board, American Bankers Association Journal, January 1925.
2. Survey by Federal Reserve Board, American Bankers Association Journal, January 1925.

85% were operating not more than four branches.

Sixteen systems were operating twenty or more branches.

No head office in a city of 1,000,000 population had any outside branches.

Only three head offices in cities of 100,000 had outside branches.

Twenty-seven head offices in cities under 500 population operated thirty-three outside branches, nine of which were in cities larger than that of the head office.[1]

The McFadden National Bank Bill which was passed February 25, 1927, after three years of discussion in both Houses of Congress, made some well defined provisions relative to branches of national banks.

Sec.1. Authorized state banks to consolidate with national banks directly under national charter. Such consolidated banks to hold all branches of the state bank which had been acquired prior to the passage of the law.

Sec.7. Authorized national banks located in states allowing branch banking to establish home city branches, but prohibited the establishment of outside branches.

Sec.8. Provided that all or any business of the bank could be transacted at any branch.

Some of the results of the privileges of this act will be shown in the section dealing with the development of certain California branch systems.

1. Survey by Federal Reserve Board, American Bankers Association Journal, January 1925.

CHAPTER II

BRANCH SYSTEMS IN CALIFORNIA

In California there were in operation, August 1, 1929, fifty-five branch banking systems. This number includes those which have offices only in their home cities, those organized on a state wide basis, and those which operate only a few offices in nearby towns. Of the first and third type little will be said, except in certain instances where a home city system is under the same control as a state wide organization.

Of the second type, those with many branches outside the home cities, there are three which may truly be called state wide systems. Two others have controlling interests in a chain of unit banks but so far are not organized as branches. A sixth has developed a branch system of considerable importance in the cities near Los Angeles.[1]

The relation of the fifty-five banks mentioned above to the total number in the state is shown by the following:[2]

	Total Banks	Branch Systems	Per Cent
	457	55	12
Resources	$4,246,360,000	$3,328,948,000	78.14
Offices	1383	626	66.9

About one-eighth of the banks control over two-thirds of the banking offices and nearly four-fifths of the total

1. Survey by the New York News Bureau, <u>The Fresno Morning Republican</u>, August 11, 1929.
2. Ibid.

banking resources. This does not include certain unit banks which are controlled by branch organizations but operated under their own charters as affiliated banks.

Within the last five years the number of branch banking systems has been reduced about half, while in the same time the number of offices has nearly doubled, and the resources have increased about fifty per cent.[1]

	Systems	Offices	Resources
Dec. 31, 1924	98	558	$2,317,541,000
" 1925	96	627	2,606,942,680
" 1926	90	670	2,757,069,226
" 1927	68	808	2,958,545,000
" 1928	55	926	3,328,948,000

Mergers and consolidations have been the cause of the reduction of the number of systems. Specific examples of this will be shown. The increase in the number of branches has come through purchase of unit banks, opening of new offices, and to some extent the purchase and merging of two or more unit banks into a single branch.

The branch banks of California may be divided into groups based upon the controlling interests. These groups have come about through mergers, consolidations, and acquisition by holding companies.

The largest, both from the standpoint of resources and number of branch offices, is the "Giannini" group,

1. Survey by the New York Bureau, The Fresno Morning Republican, August 11, 1929.

headed by Mr. A. P. Giannini and his associates. The combined resources of this group are over one and one-half billion dollars, or about thirty per cent of the entire banking resources of the state.

The "Sartori-Robinson" group through the Security-First National Bank of Los Angeles operates 144 branches, and has resources amounting to $615,067,161.

The "Goldman-Sachs-American-Crocker" group and the "Fleishhacker" group both of San Francisco complete the list of large interests which have two or more systems under a single control.[1]

Others of lesser importance from a state-wide standpoint are Citizens National Trust and Savings Bank and the California Bank, both of which are located in and around the city of Los Angeles.

The balance of the fifty-five branch institutions are for the most part, home city systems with one or more offices in the outlying districts. There are some banks, which for all intents might be classed as unit institutions, which for a great many years, have conducted one or two branch offices in nearby towns. This is especially true in the mountainous regions, where a bank organized in the principal town of a county opens offices in neighboring communities which are too

1. Survey by the New York News Bureau, The Fresno Morning Republican, August 11, 1929.

small to support an independent bank. There is little in common between these and the groups mentioned above, although, technically, all are classed as branch banks.

The following table shows the holdings of the main groups:[1]

"Giannini"		
Bank of Italy N. T. & S. A.	291 branches	166 cities.
Bank of America of Calif.	145 "	95 "
Oakland Bank	12 "	1 "
Pacific National	8 "	1 "
"Sartori-Robinson"		
Security-First National	144 "	58 "
"Goldman-Sachs-American-Crocker"		
American Trust	96 "	33 "
Crocker First National	-- "	1 "
"Fleischacker"		
Anglo & London Paris Nat.	--	1 "
Anglo California	8 "	1 "
Anglo National Corp.	17 banks	15 "
Citizens National Trust	30 branches	1 "
California Bank	54 "	17 "

"Giannini" Group

Bank of Italy

The Bank of Italy National Trust and Savings Association is the largest, oldest and most important factor of this group of financial organizations. The Bank of Italy is used to exemplify branch banking by both the critics and defendents of the movement. A detailed description of the organization, administration, and functions of this bank can be used to

1. Survey by the New York News Bureau, The Fresno Morning Republican, August 11, 1929.

characterize branch banking as it now exists in California.

It is hoped that what is said here relative to the Bank of Italy will not be construed either to be in favor of, or opposed to its actions and policies. Whenever mention is made to the merits or weaknesses of branch banking it should be applied to the system in general, not to any specific institution. In reviewing the history of any financial or commercial enterprise, many instances are seen where it has contributed in a substantial way to the welfare of its patrons and the communities which it serves. Instances are seen where the same enterprise has fallen short in this respect. This applies to banking institutions, whether unit or branch. Care must be used not to lay the blame for all weaknesses of branch banks upon the type of their organization. Due to size and sphere of activity, both the weak and strong points of these banks are known to a great many more people than the same points of even the larger unit banks. In looking for a cause, people accept the one most readily offered; in this case because it is a branch system. They do not analyze whether the same conditions exist to varying degrees in both types of institutions.

An example of this: due to over-production and lack of marketing facilities, a certain agricultural section of the state is in a financially depressed condition. Both branch and unit banks have extended large loans to the farm owners. The branch banks, because of their greater loaning power have become more heavily involved, even to the extent of assuming some of the loans made by the independents. There comes a period when the principles of sound financing demand a recovery through foreclosure. The branch systems have more at stake and consequently their activities are more noticed, the result being that branch banking receives the blame for the unfortunate circumstances which made such action necessary. The Bank of Italy, due to its early start in the branch movement has been subjected to this and other types of criticism.

The development of the Bank of Italy is so closely connected with the life of its founder, Mr. Amadeo P. Giannini, that reference to him must frequently be made. Mr. Giannini was born in San Jose, California, of Italian parents. Following the death of his father he moved to San Francisco where he worked in the fruit and produce house operated by his stepfather, Lorenzo Scatena. He continued in this business until he occupied a place of prominence among the commission merchants of San Francisco. At the age of thirty-one, after he had engaged for a short time in city politics, he withdrew from business with the idea of retiring.[1]

Due to certain real estate investments, Mr. Giannini became interested in this field and was asked to serve on the board of directors of a building and loan organization as real estate advisor. Giannini proposed that this firm adopt a new and definite program for assisting small business men. His plans were rejected as being too radical. He withdrew from

1. H. A. S. Kennedy, "The Phenomenon of the Bank of Italy", Outlook, March 30, 1927.

the firm stating, "I'll start a bank of my own and run it my own way and according to the principles you have refused to adopt."[1]

Soon after this, October 17, 1904, in conjunction with his step-father, Mr. Scatena, and a few of their Italian friends, Mr. Giannini opened the Italian Bank of California. Due to conflict the name was changed to the Bank of Italy. Incorporation took place August 10, 1904.[2] The original capital was $150,000.

The bank prospered and soon became an influence in the Italian section of San Francisco. New accounts were solicited. This was a radical departure from the existing methods of banking.

Within two years after the founding of the bank came the San Francisco earthquake. This was a severe test for the soundness of any bank, and the Bank of Italy, although considered the "baby bank" was successful in meeting the demands made upon it. It is reported that by noon of the day of the earthquake, while the city was in flames, Mr. Giannini had removed all the money, securities, and accounts from the bank and buried them in the garden of his San Mateo home. The next day he sent circulars to customers advising them that deposits were available and offering loans to those who wished to rebuild. This resulted in the Italian district of the city being among the first

1. H. A. S. Kennedy, "The Phenomenon of the Bank of Italy," <u>Outlook</u>, March 30, 1927.
2. Ibid.

to be reconstructed. While the city was still burning he established an office on the water front so that the commission houses whose services were necessary to supply food, might continue with their business. This was done in opposition to the insistence of other bankers that a six months moratorium be declared. Giannini opposed the moratorium on the grounds that immediate financial assistance was essential to the rebuilding of the city. If the local banks could not furnish aid, industries would be moved to other places.[1]

This gave the Bank of Italy its real start. Its prompt response following the disaster called forth the confidence of large San Francisco businesses.

The bank, due to foresight on the part of its officials, was able to withstand the panic of 1907 during which many others were forced to suspend activities. Mr. Giannini had sensed the approach of a crisis and to meet it had on hand a large gold reserve. Not only did he meet all demands of his own depositors but loaned to other banks. This restored the confidence of the people that deposits could and would be repaid by all institutions.[2]

In making a study of the causes of the panic, Mr. Giannini noted that in Canada, where conditions are similar to those in this country, there had been no panic. Canadian banks were branch systems. One bank did not start a run on another as in the United States where each considered itself indepen-

1. A. P. Giannini, "Branch Banking and the Bank of Italy," Bankers Magazine, June 1927.
2. Ibid.

dent from all others. He reasoned that if banks did not lose confidence in each other and thus start a run on the larger banks, that the customers of all banks would not have reason to lose confidence and thus panics would be averted to a high degree. This gave him the idea of establishing a system of branches similar to those of Canada and Australia.[1]

On August 1, 1907, the first branch of the bank was opened at 3343 Mission Street. In December 1909, the first outside branch came into existence with the purchase of the Commercial and Savings Bank of San Jose. The next move on the part of Mr. Giannini was the purchase of the Bank of San Francisco and the Mechanics Savings Bank. These were merged into the Market Street Branch, October 24, 1910. This caused excitement among financial interests. The "Dago Town" bank was moving into the money center of the city. Mild criticism was aroused and predictions were made that no bank could succeed following such reckless expansion policies.

In 1912, the Bank of San Mateo was taken into the system as the San Mateo Branch. This increased the resources to $11,228,814 and was considered the death blow to the Bank of Italy. San Mateo was thought to be too conservative for such methods. "Giannini has bitten off more than he can chew," was the general comment toward this move.[2]

The Bank of Italy had made another departure from the usual customs in the manner of selling stock. Bank stock had

1. Reed Hayes, "The Story of the Bank of Italy and A. P. Giannini."
2. Ibid.

been considered as something for only those with considerable capital at their command. Giannini offered Bank of Italy stock in small portions to any who might wish to invest. While in the commission business, Mr. Giannini had made many friends among the farmers of the Sacramento and Northern San Joaquin Valleys. Especially to these did he offer stock and have little trouble in selling due to his former connections with them. This stock selling was directly in line with the plan of future expansion. Opposition and criticism were anticipated from the other banks and from the public. By having many shareholders among the persons who would be patrons of the bank, the opposition would be lessened. People would not object to a new bank coming into the town so long as it was "their" bank.

Another policy early adopted in the expansion program was that of starting no new offices in opposition to those already in the field; instead, came the purchase of an active and profitable concern. A bank which enjoyed the confidence of the community would, if taken into the branch system, carry with it this good will. People would feel that the same bank had merely aligned itself with a larger organization. The truth of this would be apparent in the opening of a new branch or in taking over a weak or unprofitable local bank. It also provided a staff of employees familiar with the customers and characteristics of the community.

In 1913, the Bank of Italy purchased the two offices of the Park Bank of Los Angeles and with that, trouble started. Other Los Angeles banking interests attempted, through the

State Bank Superintendent, to prevent this purchase. However, with the services of Mr. James A. Bacigalupi, an attorney who afterwards became president of the bank, political opposition was overcome and the bank established its first claim of being state wide.[1]

Trouble followed due to the bank's policy of advertising in the newspapers. This was a practice opposed by bankers as tending toward "unbecoming conduct" on the part of the bank. It is a practice which has been adopted by all since then. The present attitude is that banks, which occupy a legitimate and necessary place in modern commercial affairs, should be allowed to offer their services to the public the same as any other business.

In 1914, the City and County Bank of Los Angeles was taken into the system. In 1916 and 1917, the following branches were established throughout the state in a series of consolidations that has been surpassed, only by the activities of the same bank in more recent years.[2]

1916		
Feb.	Santa Clara Valley Bank	Santa Clara.
June	First National Bank	Merced.
June	Commercial and Savings Bank	Merced.
Aug.	Bank of Gilroy	Gilroy.
Oct.	Bank of Hollister	Hollister.
Oct.	Savings and Loan Bank of San Benito County	Hollister.

1. Reed Hayes, "The Story of the Bank of Italy and A. P. Giannini," <u>The San Francisco News</u>. Reprint. (N. D.)
2. Ibid.

Nov.	Fresno National Bank	Fresno.
Dec.	Peoples Savings Bank	Fresno.

In 1917, branches were purchased at Modesto, Madere, Santa Rosa, Napa, Livermore, Redwood City, Stockton and Los Angeles. The resources reported at the end of this year were $77,473,152.79 or nearly double those of the preceding year. Over 140,000 depositors were listed among the customers.[1]

These early branches were acquired through purchase of stock by the directors of the Bank of Italy. The law prohibited one bank from owning stock in another. This method was satisfactory at first, but as expansion became more rapid and widespread, it proved inadequate. A company known as the Stockholders Auxiliary Corporation, later the National Bankitaly Company, was organized among the Bank of Italy stockholders. Each holder of bank stock was to hold a corresponding share of corporation stock. This organization had the same rights as any investment corporation in the matter of buying stock, and thus the purchases were made directly by the bank stockholders instead of through the directors. The advantages of this are obvious; less complication and less opportunity for "inside work." The National Bankitaly Company also acts as insurance broker, engages in real estate transactions and other financial matters which are related to banking. This method has been used by Giannini in financing

1. A. P. Giannini, "Branch Banking and the Bank of Italy," Bankers' Magazine, June 1927.

his subsequent banking ventures, and it is through such organizations that his systems are inter-related.

During the administration of Wm. D. Stephens, as Governor, the Bank of Italy was halted temporarily in its expansion movement. The California Law provided that branches might be established "upon a finding of the Superintendent of Banks of local advantage and convenience" to the community in which the branch was proposed. Chas. F. Stern, the Superintendent under Governor Stephens, was not friendly to the branch idea and would allow the establishment of no new offices. However, during this period the National Bankitaly Company purchased the stock of a number of banks which continued to operate under their corporate names; not as branches of the Bank of Italy. If the purchased bank was a state institution, it was converted into a national bank so that it would be removed from the jurisdiction of the state banking authorities. The banks were later turned into branches. Institutions which were so purchased and operated were:

First National Bank	Fresno
First National Bank	Centerville
First National Bank	Lompoc
Citizens Bank	Paso Robles
First National Bank of Hayward	Hayward
First National Bank	Los Banos
First National Bank	King City[1]

1. Reed Hayes, "Story of the Bank of Italy and A. P. Giannini," San Francisco News. Reprint. (N. D.)

This was not in accord with the wishes of the State Banking Department and there followed much political and newspaper agitation on the matter. Excitement reached the stage where a brief close of the Santa Rosa branch during a funeral started a run. Prompt action at the head office prevented the run from spreading to other localities.

It is reported that before the term of Mr. Stern had expired in 1921, he became more tolerant toward the branch movement and his last official act was to sanction the conversion of the Corporation owned banks, along with six others, into branches.

In 1929, the Bank of Italy joined the Federal Reserve System with the understanding that its program of expansion was to continue, unless the "proposed extension would impair the general strength and safety" of the System. Shortly after this the Federal Reserve adopted a policy of prohibiting the expansion of any of its members outside their home city.

To meet this situation, the National Bankitaly Company organized the Liberty Bank located on the site of the Market street branch of the Bank of Italy. This was not affiliated with the Federal Reserve System. A number of consolidations were made under this head, chief among them being the Bank of America in Los Angeles with thirteen branches, and the Commercial National Trust and Savings Bank of San Francisco. These were merged as the Liberty Bank of America and this in turn was absorbed by the Bank of Italy when it received its national charter in 1927, as the Bank of Italy National Trust and Savings Association. At the time of this final merger, the Liberty Bank was operating 174 branches and affiliated unit banks, and had resources of over $200,000,000.[1]

Since 1921, growth has been consistent and continuous. New branches have been added each year with the exception of 1926, when all efforts were aimed toward improvement of the operating methods.

At present the Bank of Italy has about 300 branch offices located in 166 California cities and communities. About forty branches are in San Francisco, forty in Los Angeles, and twenty in Oakland. The total resources are reported to be nearly $900,000,000.[2]

The Bank of Italy controls twenty per cent of all banking resources of California and about twenty-two per cent of the banking offices. The depositors number about 1,500,000.

The Bank of Italy is approached in size and influence by its sister organization, the Bank of America of California, which is briefly described in the following section.

Bank of America of California

The Bank of America of California, a state bank, is a

1. A. P. Giannini, "Branch Banking and the Bank of Italy," Bankers' Magazine, June 1927.
2. Bank of Italy, Statement of Condition, June 1929. Ibid. December 31, 1929, Resources $1,055,113,373.09.

result of the consolidation of the Merchants' National Trust and Savings Bank of Los Angeles and the United-Security Bank and Trust Company of San Francisco. This latter organization had been formed only a year prior by the formal consolidation of the United Bank and Trust Company and the Security Bank and Trust Company, both of which had been closely related through the French American Corporation, an investment company, under which they and other banks were operating.

Head offices of this bank are at Seventh and Spring Streets, Los Angeles. There are approximately 160 branches located in about one hundred communities. For operating purposes the Bank is divided into a Northern and Southern Division. Headquarters of the Northern Division are in San Francisco.

According to the last statement issued by the Bank, it had among its customers some-what more than one-half million depositors.[1]

Capital Stock-------------------	$20,000,000
Deposits------------------------	37,634,572.77
Total Resources-----------------	77,986,434.47

Oakland Bank

In the "Giannini" group, the Oakland Bank is an example of "home city" branch banking. This institution was established

1. Bank of America of California, Letter from Douglas A. Buckler, Adv. Mgr., September 12, 1929.
2. Bank of America of California, Statement of Condition, December 31, 1924.

August 13, 1867 as the Oakland Bank of Savings, with a capital of $150,000. In 1869 this was increased to $300,000 and in 1871 to $1,000,000. In 1911, the Bankers' Trust Company of Oakland was merged with the Oakland Bank and capital stock increased to $1,150,000.[1]

The Semi-annual Statement issued by this bank June 30, 1929 reported a capital of $2,000,000; deposits $58,302,249.07, total resources nearly $65,000,000.

It has been a consistent policy with the Oakland Bank to establish branches in parts of Oakland for the convenience of its customers. Each branch is equipped to carry on exactly the same functions as the Head Office. At present there are twelve such branches distributed throughout the city in the important centers. Deposits may be made at any branch and credited to accounts at the head office or in any other branch. Contrary to the practice of state wide branch systems, the head office, located at Twelfth and Broadway, carries on a general banking business.

On December 17, 1929, it was announced that the Oakland Bank had been completely absorbed by the Transamerica Corporation, the controlling unit of all Giannini banks, and with the exception of the Trust Department will no longer be operated under that name.

The Bank of America of California was scheduled to take over eight of the branches and the Bank of Italy to take the

1. <u>Oakland Bank</u>, The Oakland Bank of Savings, Edition of July 1, 1913.

remaining four, including the head office.

The complete consolidation was effected to permit the saving of overhead expenses and the elimination of unprofitable competition. With this reorganization there has nominally gone out of existence an institution which has long been a factor in the growth and development of the East Bay District.[1]

Transamerica Corporation

The organization at the top of all Giannini controlled activities is the Transamerica Corporation. This was incorporated during October 1928 under the laws of Delaware as "a holding company to acquire stock ownership and control of a number of important banks and affiliated financial institutions."[2]

At present the banking systems held by this corporation operate over 460 offices in 240 California cities, 34 offices in New York City, and a number in Europe. There are 21 separate subsidiaries; the principal ones of which are as follows:

	Total Invested Capital	Shares Owned	Per Cent
Bank of Italy Nat. Trust & Sav. Assn.	$106,253,731.00	1,991,941	99.60
Bankitaly Co. of Amer.	400,000,000.00	1,299,125	99.93
The Bank of Amer. Nat. Assn. New York	74,451,204.00	705,501	49.30
Bancamerica-Blair Corp.	53,000,000.00	705,501	49.30

1. The Fresno Morning Republican, December 18, 1929
2. America Investment Company, Transamerica Corporation.

Bank of Amer. of Cal.	33,068,432.00	778,292	97.29
Corporation of Amer.	20,000,000.00	778,292	97.29
America Investment Co.	1,000,000.00	9,987	99.87
Oakland Bank	6,461,752.00	14,390	71.95
Banc d'America a d'Italia	23,100,000.00	804,112	40.20
Ameritalia (Corp.)	10,000,000.00	804,112	40.20
Bankitaly Mortgage Co.	1,983,817.00	10,000	100.00
Calif. Joint Stock Land Bank	1,399,050.00	9,160	100.00
Pacific Nat. Fire Insurance Co.	3,000,000.00	49,923	99.85
Bankitaly Agricultural Credit Company	1,006,620.00	10,000	100.00[1]

Some of these are inter-related among themselves as the Bankitaly companies which were organized and are operated by the stockholders of the Bank of Italy National Trust and Savings Association, and the America Investment Company which bears the same relation to the Bank of America of California. Others are institutions which have grown independently and come into the system by stock purchase and a series of consolidations. The Bank of America of California, the Oakland Bank, and The Bank of America National Association are of this latter type.

The Corporation is capitalized as follows:[2]

Common Stock ($25 par)	Shares	Par Value
Authorized	50,000,000	$1,250,000,000
Outstanding	23,190,477	579,761,925

1. America Investment Company, Transamerica Corporation.
2. Ibid.

The outstanding stock is distributed among 135,000 holders, over 90% of whom own less than 250 shares each. This is in accord with the early Giannini policy of distributing stock in relatively small amounts among a large number of people.[1]

Total assets amount to $1,162,940,136, nearly all of which is represented by securities held in the above organizations.

The management of the Corporation is vested with persons who have been responsible for the origin and development of the subsidiary institutions. Among the directors are A. P. Giannini, President; James A. Bacigalupi and P. C. Hale who have long been with the Bank of Italy; Leon Bocquerez and E. J. Nolan who were with the organizations which merged to form the Bank of America of California; Edward C. Delafield, formerly president of the Bank of America of New York and now president of the Bank of America National Association; W. W. Garthwaite, president of the Oakland Bank; and Elisha Walker, president of the Bancamerica-Blair Corporation.

Security-First National
Bank of Los Angeles

This branch system is the result of the consolidation of the Security Trust and Savings Bank of Los Angeles and the Los Angeles-First National Trust and Savings Bank. The former of these was one of Los Angeles' oldest banks, and at the time

1. Reed Hayes, "The Story of the Bank of Italy and A. P. Giannini," The San Francisco News. Reprint. (N. D.)

of the merger was operating, under the leadership of Mr. J. F. Sartori, a large number of branch offices in and about this city.

The Los Angeles-First National came about as a former consolidation of the First National Bank of Los Angeles with the Pacific-Southwest Trust and Savings bank. Mr. Henry M. Robinson who had been President of the Pacific-Southwest continued at the head of the new alignment.

The Security-First National, with Mr. Sartori as President, and Mr. Robinson as chairman of the board of directors, has sixty-eight branches in the city of Los Angeles and seventy-six outside branches located in fifty-seven Southern California cities and towns. The northernmost office is in Fresno.

According to the latest statement, this organization is capitalized at $30,000,000; has deposits amounting to $541,456,293.64; and over 700,000 depositors. Total resources are in excess of $610,000,000.[1]

The Bank of California
National Association

This bank, with its head office in San Francisco, is the only bank chartered in the United States that is empowered to operate branches in states other than that in which its home office is located.[2] In 1905, the Bank of California, then a

1. Security-First National Bank of Los Angeles, Statement of Condition, December 31, 1929.
2. Survey by the New York News Bureau, The Fresno Morning Republican, August 11, 1929.

state organization was consolidated with the London and San Francisco Bank, an English institution which was operating branches in Portland, Tacoma, and Seattle. These offices were maintained and one additional has been opened in the Mission district of San Francisco. In 1910 a national charter was granted.[1]

This bank is not important as regards a study of California branch banking and is mentioned only because of the facts in the paragraph above. In the words of its president, "--we are not in the present day understanding of the term, a 'branch bank'."[2]

1. Howard H. Preston, "Branch Banking with Special Reference to California Conditions," Journal of Pol. Econ., Aug. 1922, 494.
2. The Bank of California, Statement of the President, Mr. C. K. McIntosh, August 13, 1929.

PART TWO

BRANCH BANKING AS A SOCIAL AND ECONOMIC PROBLEM

CHAPTER III

THEORIES OPPOSING AND FAVORING BRANCH BANKING

As branch banking has become more and more an issue of importance in this and other states, those whose interests have been connected with unit banking have developed and propagated some very clear cut theories in opposition to the movement. These theories have been met in many instances by just as clear cut arguments formulated by the branch bank elements. This topic has been among the foremost discussed at all recent conventions of state and national bankers' associations. There is seldom an issue of any banking or commercial publication that does not carry one or more articles either favoring or opposing the movement. Each session of the California legislature is confronted with bills dealing with this subject. Mention has been made of its being before our federal congress.

There is little doubt but branch banking development is making it very difficult in a great many instances for the survival of small and even large unit organizations, and consequently from the standpoint of the independent banker it is most undesirable. Just as the local grocer finds it most undesirable for the large chain grocery system to enter his territory. The public may look at such things from a different standpoint. The public is interested in finding a system that will best meet its needs. The problem is to determine ahead of time which will do this. We have only the claims made by each group upon which to form a conclusion.

Un-American Policy

Those who oppose branch banking contend that it is un-American in policy. They point to the thirty thousand local unit banks of the United States as evidence that Americans pride themselves in the individuality of their banking systems, and claim that branches would tend to destroy this condition. They say further that there is no personal touch within a branch system. The remoteness of the head office from the districts relying upon the bank, and the size of the system prevent any acquaintance between the customers and those who determine the policies of the institution. A branch manager may be in accord with the desires of the community but he is not free to make decisions relative to matters which affect the community where his branch is located.

Branch systems are further accused of trying to bring not only all financial resources, but agricultural and manufacturing activities of large areas under single control. This is considered as contrary to American principles. The fear of the people regarding anything of a monopolistic nature has been in evidence throughout our history.

To offset these arguments the branch bankers attempt to show that although there has grown up a large number of unit banks, the original policy of our nation tended toward branch banking. This they claim is evidenced by the First and Second Bank of the United States, both of which were permitted and encouraged to establish branches.

Regarding personal touch between banker and patron, one branch banking enthusiast shows instances where the factor of personal touch has entered into business negotiations to the extent that both the bank and the patron found themselves in situations disastrous to each. He gives personal touch as often being the cause of a small unit banker's making a loan which from the standpoint of sound banking is unsafe. Personal touch may be, but very often is not, real business.[1]

The branch bankers further contend that their branch managers and employees are selected because of their knowledge of local conditions. They are given the same authority to carry on business as the unit banker, so long as they follow the general policy of the head office, which is formulated only after an intensive study of conditions and needs in a great many communities. The unit banker is familiar with conditions only in his own community, while the branch banker has the same information available from a great many communities, and can interpret local conditions in their relation to those of a much greater area. A branch system is evidence of a

1. A. W. Atwood, "Banks and the People," <u>The Saturday Evening Post</u>, June 11, 1927.

state or American policy, while unit banks are evidence of a purely local policy.[1]

Concentrated Resources

A second general objection to branch banking is that of concentrating great financial resources under single control. With resources so concentrated any mismanagement on the part of an official is likely to affect a great many people. The advocates of a branch system admit this, but also point out that good management of a widespread system is a benefit to an equally large number of people.

Opponents claim that when resources are centrally controlled the tendency is to favor localities which offer greater returns to the bank at the expense of communities where small returns may be expected.[2] Money which is put on deposit by farming communities is taken to the cities and there invested instead of being used for the development of local enterprises. Furthermore, when advances are needed in the country the funds are not available. The entire loaning power of the bank has been used up in the urban centers. Under a branch system the city thrives at the expense of the country.[3]

1. A. W. Atwood, "Banks and the People," Saturday Evening Post, June 11, 1927
2. James Dysart McGee, "Money and Banking," 456.
3. Howard H. Preston, "Branch Banking with Special Reference to California," Journal of Political Economy, August, 1922.

Branch bankers attempt to refute this theory as follows: They contend that the main purpose of the bank is to serve the people engaged in business within the confines of the bank's activities, it must be remembered that to offer the best service the bank must be in a prosperous condition. This applies to a small unit bank as well as to a large branch system. A bank which uses a large part of its resources where it brings about the greatest development is rendering more service than the bank which finances minor activities. It is said, that very often under unit control resources are invested in local enterprises, which from the standpoint of sound business principles represent wasted money. Examples cited are large wardhouses, elevators, and packing establishments built in small communities which are not sufficiently large to support such things and bring a proper return upon the money invested. Needless duplication of such facilities takes place in adjacent localities. Under central control and proper management all this may be eliminated.[1] The theory is that it is far better for the deposits of the farming centers to be invested profitably in cities or centralized districts, than for them to be invested in enterprises which are brought about only through local pride and a feeling of rivalry toward neighboring communities.

The branch bankers also point out that under a unit system the wisest bankers are often those who invest their

1. Statement of Mr. C. E. Neill, (see page 3)

surplus funds in other places. This has been going on throughout the history of our state, but has been considered an evil only since the advent of the branch systems. They further contend that whereas under a unit-correspondent system the city banker who has the funds of a small country bank may have them securely invested, he will be far less likely to come to the aid of the country bank when the customers of the latter are calling for loans, than will the head office of a branch system when one of its branches is in need of funds.[1] Some writers claim that the correspondent system, especially before the introduction of the Federal Reserve, was in a measure responsible for the periodic panics of the nation. The inter-branch relations of a large system correspond very closely in a smaller way to the workings of the Federal Reserve System. Instead of money being taken from one district and used for the development of another the funds are so regulated that they can be readily shifted from one place to another depending upon where the need is greatest for the time being.[2]

The branch bankers say further in this respect, that an accepted policy of branch banking is that in the long run each branch must show a profit or it will not be maintained.[3] This is not unlike the requirements for a substantial unit

1. A. W. Atwood, "Banks and the People," Saturday Evening Post, June 11, 1927.
2. Ibid.
3. P. S. Wiseman, "Management of Branches," Bankers' Magazine, December 1926.

bank but has this advantage, the branch must be profitable "in the long run." In other words if a period of depression occurs in the locality served by a branch, it has the resources of the entire system to rely upon during that period, and such situation is considered by the head office to be only a temporary condition affecting one small part of its business. The unit bank very frequently is not able to weather such a period due to the inability or unwillingness of its correspondent to come to its assistance. The unit bank must show a profit in both the "long run" and the "short run" if it is to be maintained.

Granting of Loans

The third point about which discussion has centered is that of granting loans. Opponents declare that branch managers are given very little freedom in the matter of accepting or rejecting an application for a loan. It is claimed that the manager is given little opportunity to grant loans where a reliable reputation is offered as part of the security. The branch system puts a value only upon material security, and it is seldom that a man who is known to be honest and to use sound judgement receives greater consideration, than the man who offers the same collateral but does not have these intangible assets.[1]

1. Chas. Wallace Collins, "The Branch Banking Question," 9-12.

Also it is contended that even though the loan be allowed by the district or head office, a great deal of time is lost in correspondence and communication before the money is actually available. This delay may frequently be a great handicap to the one applying for the loan. A farmer delayed in the harvesting of a perishable crop, or in the purchase or repair of a necessary piece of equipment, due to the time lost in communication over a loan offers an example of this.[1]

The branch banker answers these arguments merely by saying that the opposite is true. Branch managers are given a wide range of freedom in making loans. Managers are selected because of their knowledge of the affairs and the personnel of the community in which they are to work. This is so that they can take into consideration the personal traits of an applicant for a loan. He further contends that in the matter of a loan of appreciable size less time is used in communication between a branch and the head office than is used by a unit banker in arranging the details of a similar loan.[2]

Seasonal and Diversified Transactions

Within the territory served by a large branch system are to be found a great many industries, some of which become active at one season of the year, others active during another season. The branch bankers claim that their systems meet this

1. James Dysart McGee, Money and Banking, 456-9.
2. A. W. Atwood, "Banks and the People," Saturday Evening Post, June 11, 1927.

condition ideally. Money flows freely through the organization to the places where business is active, away from the localities where there is no demand for surplus funds. As new industries become active and others close down, the funds are shifted. Thus the same money serves a number of businesses in a single year. They say that unit banks are often troubled with periods of inactivity in their localities when deposits pile up and, due to inadequate relations with other banks, there is no way to get these surplus funds where they are needed with an assurance that they will be available when the need again arises in the home district.[1]

It is contended that highly diversified investments lower the possibility of failure on the part of a bank. An institution covering a large territory is active in many industries. It is unlikely that any great number of these will suffer a period of depression at the same time. In this way the failure of a branch system is practically eliminated with the assurance that goes to a depositor that his money is being wisely and profitably employed.[2]

The opponents meet this argument by saying that the Federal Reserve System can and does insure the continued employment of surplus deposits perfectly through rediscounts,

1. Howard H. Preston, "Branch Banking with Special Reference to California," Journal of Pol. Econ., August 1922.
2. James Dysart McGee, Money and Banking, 458.

and that any additional organization for this function is not only unnecessary but in direct competition with the existing structure.[3]

Miscellaneous

The opponents further claim that an accurate examination of a large system is impossible due to the number of examiners who would be required to examine all branches simultaneously. This allows for the transferring of funds from one branch to another during the examining process.[1]

The enthusiasts of branch banking declare that because of their size, branch systems are able to secure the services of experts who act as managers and advisers. The unit bank is not able to employ a staff of experts.

It is possible for the branch system to establish offices in communities which are far too small to support a unit bank. No additional capital is required over and above provision of office space and the services of a representative.[2] The branch advocates show where such branches are in operation, and claim that the inhabitants of these places many times have better banking facilities than the nearby larger town which is trying to support a unit bank.

1. A. W. Atwood, "New Money Power," Saturday Evening Post, June 4, 1927.
   Hugh A. Studdert Kennedy, "Is the Federal Reserve System in Danger," Outlook, March 3, 1926.
2. Chas. Wallace Collins, The Branch Banking Question, 12-17.
3. James Dysart McGee, Money and Banking, 456-8.

If branch organizations take the place of the Federal Reserve system, their sponsors say it will be because they are better suited to fill that place than the existing system. They claim that if such a thing comes about it will be a move toward the strengthening rather than the destroying of a nation wide credit structure.

Branch bankers further argue that with a large number of branches widely scattered, the head office is able to keep on hand a cross section of the economic conditions of the territory served by the system. By this the bank can sense any need for money that is likely to arise in the immediate future in any of its districts and have the funds there to meet the demand.[1] This is a service not adaptable to a unit organization.

Opposition--Henry M. Dawes

Henry M. Dawes, former Comptroller of the Currency, in the November 9, 1929 issue of the Saturday Evening Post considers branch banking in its relation to the National Banking and Federal Reserve Systems. His contention is that through these two systems the finances of the nation are sufficiently co-ordinated, and that a nation wide development of branch or chain organizations will tend to tear down or weaken these institutions which have come as the result of years of experience. So far the finances of the country have been controlled by the people through the federal government. If this system

1. James Dysart McGee, Money and Banking, 456-8.

is overshadowed by the privately controlled organizations, it is feared that this relation will be reversed and in time of financial emergency the government will be unable to legislate toward bringing about stabilization. Said he:

> "-----it (banking) is a form of public service and not of private business, ---the banks are, after all, only the channels through which business transactions flow, and are not the springs which create the rivers of commerce."

Mr. Dawes suggests that a commission composed of the Secretary of the Treasury, the Governor of the Federal Reserve Board, the Comptroller of the Currency, and such men as Senator Glass, Owen D. Young and Parker Gilbert be asked to recommend to Congress, legislation that will serve to control this new movement.

CHAPTER IV

ANALYSIS OF THEORIES

In attempting to evaluate the theories set forth by each group it would appear that one of the best grounded claims of the branch bankers is that their system is well adapted to the needs of seasonal and diversified agricultural activities. Some of the most ardent enemies of branch banking concede that in this respect the branches have an advantage over the independents.[1]

There is no question about the benefits from diversified transactions. That is an accepted principle of sound investing. Lack of diversified investments has been partially the cause of recent bank failures in the fruit raising districts of California. As to meeting the needs of seasonal crops, the question is whether the branches are any better organized to do this than are the unit banks through membership in the Federal Reserve System. Both structures work toward the same end. It is probable that funds can be shifted more rapidly through the branch system, but offsetting this is the possibility that they are being shifted to places that will bring greater returns to the bank instead of to the places where the need is greatest.

The member banks of the Federal Reserve System are not so directly connected as are the offices of a branch system,

1. Howard Whipple, "Social Importance of Branch Banking," <u>Bankers' Magazine</u>, April 1923.

and this tends to retard transfers from place to place, but on the other hand there is very little possibility that any unit banker would allow deposits from his community to be used for development elsewhere if there were a need for the same locally.

If ability to shift funds rapidly is the main point in favor of the branches, and the assurance that surplus deposits are being used for the benefit of those to whom they belong is a point in favor of the member system, it would seem that in this respect unit member banks are more desirable. The question of which type can better handle the credit demands is one confronting all who are interested in present day banking methods, the answer to which would clear up much of the agitation both ways in the matter.

Branch banks have a decided advantage over the unit organizations in the size of loans that may be made. Banking laws declare that a single loan must not exceed a certain part of the total assets of the bank. Due to this rule, even a fair sized unit bank may be unable to supply the needs of an expanding business, whereas the branch office in the same community has behind it the loaning power of the entire organization. This advantage, while it certainly exists, is of a technical nature and is not in any way evidence of greater stability. If it is a desirable thing for a small branch to loan far in excess of its deposits would it not be equally desirable to adopt banking laws permitting unit banks to make loans based upon the total assets of all their correspondent banks? The soundness of such a policy would certainly be doubted, yet this is essentially the manner by which the branch organizations acquire such a loaning power.

The theory held by the opponents that dangers and abuses will result from concentrated resources seems the most forceful in opposition to the movement. Concentration of financial resources under a single control is likely to bring about a condition similar to any other concentrated and singly controlled power. It may be used for the good or the detriment of those over whom the power is exercised. History has shown that more frequently the latter results. The ability of branch banking institutions to exert influence over legislation has already been demonstrated by at least one of California's organizations.[1]

The tendency of the present branch systems to extend their activities through affiliations into the fields of insurance, real estate, commerce, and agriculture is making more apparent the possibility of such a concentration. The activities of banks whether unit or branch should be confined to that of banking. Banks are fundamentally a medium through which business is carried on. They are created under different laws than those governing other businesses. They are given rights and have certain requirements imposed upon them that will make them better able to serve the communities in which they operate. When a bank affiliates, even remotely,

1. Reed Hayes, "The Story of the Bank of Italy and A. P. Giannini," The San Francisco News. Reprint. (N. D.)

with another type of business, it uses its privileges as a banking organization to offset competition in the field of industry into which it has entered. Such privileges are the right to loan money only to those whom the bank desires, and the right to know the details and condition of its customers' business. It is not the purpose of this paper to discuss centralized control of industry; it is possible that such a control has its merits. Whether such a system is good or bad the control certainly should rest in the hands of a banking organization which by the spirit behind its charter is charged with carrying out a certain and well defined semi-public activity. Activity in other fields is not necessarily a characteristic of branch banking, but it is a course that some of them are following, and as such should be considered as a point against their favor.

As to the matters of personal touch between bank and customer, authority delegated to branch managers, consideration of personality and reputation in granting loans, and the services of experts, little can be said with assurance either way. The arguments of both groups upon these subjects are likely based upon facts as they have been observed. Different branch systems have different policies on these matters, just as do different unit banks. Branch managers do not all interpret the policies of the head office the same. Conditions are not alike in any two localities. Policies have changed as the movement has developed. None of these characteristics can be considered as fundamental to either system and for that reason bear little weight one way or the other.

Public Attitude

The foregoing discussion has dealt entirely with the arguments and theories of bankers and students of banking problems. As was stated before, the public looks at such things from a different standpoint. Branch bankers claim that their system meets ideally the demands of diversified farming interests. As to this, questionaires asking the following were sent to 150 farmers in 21 San Joaquin Valley communities.

1. Have you had dealings with both independent and branch banks?
2. If so, with which were you better satisfied?
3. At present are you doing business with a branch or independent bank?
4. Which type of banking system do you consider can best serve a farming community?
5. Please state as fully as possible why you consider one system better able to serve a farming community than the other.
6. What is the main crop produced on your ranch?

Most of these farmers were unknown to the writer, but were reported to have been residents of their communities for three or more years, and to have carried on an ordinary amount of banking business. It was fully explained in a letter accompanying the questionaires that the survey was not sponsored by any banking organization. No signatures were requested.

Of the fifty-one who replied, forty-four reported that they had had dealings with both types of banks. Of this number, twenty-eight were better satisfied with the independent banks, six were better satisfied with the branch organizations, and ten were either equally well satisfied with both or expressed no choice.

Of the twenty-eight who were better satisfied with the independent banks, twenty-four considered that this type of organization could best serve a farming community, two considered a branch better adapted, and two stated that a branch system can but does not always best serve such a community.

Of the six who had dealings with both types of banks and were better satisfied with the branches, four considered a branch system better able to serve a farming community and the other two thought a unit bank was better if it were large enough.

Six of the ten who were equally well satisfied in their dealings with both types considered unit banks better for a farming community, three favored branches, and one made no choice.

Four answered no to the first question and stated that at present they were doing business with an independent bank, also that they considered such a bank better able to serve a farming community. The other three did not state with which type they are doing business but they both considered a unit bank better for a farming district.

The following direct statements are typical of those made by farmers who favored independent banks.

> The personal touch with all community conditions is almost entirely lacking in branch banking and yet it definitely forms or is one of the fundamental essentials of good banking. There is also a great danger for a consolidated institution such as a bank with a multitude of branches to become a political menace.

> Independent banks are usually controlled by local men who are more in sympathy with local conditions.

> The heads of the branch bank may be more interested in industrial projects in other communities while a farming community may be a minor proposition to them.

> Branch banks have only some iron-clad rules that bespeak only failure and defeat for the average individual.

The following are taken from reasons given in favor of branch organizations.

> A large bank with money in other enterprises, with farming only one of its loan fields.

> I think branch banks can serve better because their deposits may be high in some sections during certain seasons of the year while they are low in other sections and so funds can be drawn from branches with high deposits to lend through branches where deposits are low. Further, conditions might become so bad in some sections as to cause independent banks to close with loss to depositors, while branch banks could take considerable loss but on account of diversification of industries would remain solvent and depositors would not suffer.

> Branch banking credit is more conducive to better business methods in farming.

Several made statements similar to this:

> The branch bank is better able to serve a community because of its larger capital, but my observation is that they do not seem to be in the community to serve it, but for wholly selfish purposes.

That these reports came from men in diversified activities is evidenced by the answers to question six. Peaches, grapes, raisins, figs, plums, alfalfa, cattle, apricots, oranges, cotton, dairy products, grain, and vegetables were given as the important crops. Of the few who were better satisfied with branch systems or who considered them better suited for a farming community not more than two listed any one of the above as their main crop.

In personal interviews with about forty retail business men located in San Joaquin Valley towns the substance of the following questions were asked.

1. As a business man do you prefer to do business with a branch or unit bank?

2. What seems to be the general attitude of your customers toward the two types of banks?

Those located in the smaller towns nearly all replied that from the standpoint of their businesses, as depositors, they preferred the branch organizations. The outstanding reasons given were that the branch banks were more careful about making loans, and consequently the money was more secure. The usual reply from those in the larger towns where there are both unit and branch banks was that it made little difference from the standpoint of their business whether their deposits were dept in one type or the other.

As to the second question; those whose business relations brought them in contact with the farmers, replied that there was a strong feeling of dissatisfaction among their customers toward the branch banks. Those whose business was mainly with professional people and tradesmen replied that their customers had little to say regarding the subject.

Similar expressions of dissatisfaction were reported by three representatives of farm supply firms whose business brings them in contact with farmers in the central and northern part of California who are using the products of these concerns.

From the information received from the farmers themselves and from that furnished by men whose dealings are largely with farmers it would appear that branch banking is not favored by those among whom its sponsors claim it can most effectively operate. Here are replies directly and indirectly from persons engaged in all types of California agriculture and the prevailing attitude is one of dissatisfaction. Whether this attitude is only temporary remains to be seen. One thing is certain, however, the opinions expressed by these farmers are not based upon theories but upon conditions as they actually exist. Their attitude will not be changed until the branch systems conclusively demonstrate that they are able and willing to co-operate to the same extent as the unit organizations. Branch banking is still in the experimental stage. It may be as they become adjusted to the demands of agricultural financing, that branch banks will fill the place in farming communities claimed by their advocates.

CHAPTER V

RESUME

In summarizing the problem of branch banking two issues stand foremost. (1) Will branch organizations through their inter-office relations more adquately meet the demands for credit than unit banks through membership in the Federal Reserve System? (2) Will branch bank expansion result in a centralized control of financial resources that will tend to restrict the natural development of any industry?

The branch systems have the machinery to meet credit demands fully as well and possibly more rapidly than the unit banks, but whether they will carry out this function to the best interests of all concerned has been shown to be a different matter. A comparison of the claims of both sides gives a slight advantage to the unit organizations whose local interest and dependency over-balance the ease with which funds may be transferred between the branch offices.

Whether the branch banking movement will result in an undesirable centralized control is only a speculation. The entrance of banking organizations into other industries was pointed out as highly undesirable. Unless the banks of their own accord see the inevitable dissatisfaction that will result from this policy, legislative interference prohibiting any semblance of affiliation between banks and other business activities will be necessary.

In so far as the survey to determine the attitude of the agricultural interests was extended, the results showed the farmers to be decidedly dissatisfied with branch banking as it is now practiced. It is possible that a more intensive survey over a larger portion of the state would show a higher proportion in sympathy with the branch institutions. That is unlikely though, in as much as the other sections of the state have crops and conditions similar to those of the San Joaquin Valley and are served by the same branch organizations.

Branch expansion has developed a community of interest among the unit banks that has had a wholesome effect. Previously there was little connection between them aside from that based upon business transactions. From this have grown up independent bankers associations whose purpose is to work out common problems and decide upon uniform policies and methods that will widen the service which they offer.

The writer has attempted to present both sides of this question as he sees it from the standpoint of one who is in no way connected with any banking organization and whose relations with banks have been limited almost exclusively to that of depositor. His interest in the subject is that of a student of Economics and as such is unbiased one way or the other. Both systems have their strong and weak points.

An evaluation and comparison of the claims and statements made by professional bankers, students of banking problems, and the customers of banks leads to the conclusion that as the two systems now exist the independent or unit banks can and do offer a more valuable service to the public generally.

BIBLIOGRAPHY

Works intensively studied

Collins, Charles Wallace,

The Branch Banking Question.

McMillan and Company, New York, 1926.

American Bankers Association Journal,

January 1925,

"Survey of Branch Banking by the Federal Reserve Board."

November 1925,

"Four Current Banking Problems," Sartori, J. F.

March 1926,

"Branch Banking," Whipple, Howard

Bankers Magazine,

April 1923,

"Small Banks Can't Meet Modern Demands," Giannini, A. P.

"Social Importance of Branch Banking," Whipple, Howard

January 1926,

"What About Branch Banking?" Elliott, D. C.

February 1926,

"Is the McFadden Bill Fair to State Banks?" Sartori, J. F.

October 1926,

"Independent vs. Branch Banking," Hevener, Osborn Fort

November 1926,

"Does Branch Banking Check Bank Failures?" Chapman, John N.

December 1926,

"Branch Banking Profits," Wiseman, Philip S.

June 1927,

"Branch Banking and the Bank of Italy," Giannini, A. P.

"Branch Banking Battle," Hayes, W.

"Unit Banking," Von Elm, A.

<u>Journal of Political Economy</u>,

August 1922, p. 494-519

"Branch Banking with Special Reference to California," Preston, Howard H.

<u>Literary Digest</u>,

March 19, 1927, p. 84-6.

"New Federal Banking Law."

May 14, 1927, p. 78-9

"First Effects of New Banking Law."

October 15, 1927, p. 62-7

"Great Banker and His Fiery Baptism."

Magazine of Business,

May 1929, p. 529

"When Branch Banking Becomes Nation-wide."

June 1929, p. 640-1

"How Does Branch Banking Serve Business?" Millar J. H.

Outlook,

March 2, 1927, p. 263

"Bankers Shoe on the Other Foot."

March 30, 1927, p. 406

"The Phenomenon of the Bank of Italy," Kennedy, H. A. S.

October 9, 1929, p. 226

"Branch Banking," Shively, Carleton, A.

Saturday Evening Post,

June 4, 1927,

"New Money Power," Atwood, A. W.

June 11, 1927,

"Banks and the People," Atwood, A. W.

November 9, 1929,

"The Branch Banking Problem," Dawes, Henry M.

The Fresno Morning Republican,

August 11, 1929,

"Twelve Per Cent of California Banks Control Eighty Per Cent of State's Resources," New York News Bureau.

The San Francisco News

Supplementary reprint

"The Story of the Bank of Italy and A. P. Giannini."

Hayes, Reed.

Works used for reference only

McGee, James Dysart,

Money and Banking,

Prentice-Hall Inc., New York, 1923.

Scroggs, William O.

A Century of Banking Progress,

Doubleday-Page and Company, New York, 1924.

Collier's,

January 11, 1930, p. 20-1

"The Big Bank Round Up," Flynn, John T.

Sunset,

February 1928, p. 11-5

"De-bunking Banking; Bank of Italy," Marvin G.

World's Work,

May 1927, p. 10-1

"Branch Bank Act."

California,

Bank Act of California, including 1921 Amendments,

Blythe, Witter & Co. San Francisco, 1921.

Superintendent of Banks, Report for 1924.

Federal Reserve Board,

Annual Report, 1924.

Bulletin, June 1926.

Bulletin, May 1927.

United States Daily,

September 17, 1927.

Fresno Morning Republican

December 18, 1929.

San Francisco Chronicle,

February 20, 1928.

America Investment Company

Transamerica Corporation

Bank of America of California,

Statement of Condition, June 29, 1929.

Statement of Condition, December 31, 1929.

Letter from Advertising Manager, Douglas A. Buckler,
September 12, 1929.

Bank of Italy National Trust and Savings Association,

Statement of Condition, December 31, 1929.

Citizens National Trust and Savings Bank,

Statement of Condition, June 29, 1929.

Security-First National Bank of Los Angeles,

Monthly Summary of Business Conditions in the Pacific-Southwest, December 2, 1929.

Statement of Condition, December 31, 1929.

The Oakland Bank

The Oakland Bank of Savings, July 1, 1913.

Statement of Condition, June 30, 1929.

The Bank of California National Association,

Letter from President C. K. McIntosh, August 13, 1929.